Inland Revenue
Te Tari Taake

Policy and Strategy
Inland Revenue

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Proposed amendments for Mycoplasma bovis

The Government intends to introduce legislation to ensure that farmers whose herds were culled in response to the Mycoplasma eradication programme will not face an undue tax burden.

The proposed changes will be included in a future tax bill and would apply from the 2018 income year, as culls began in late 2017.

Background

The Government intends to introduce legislation to ensure that farmers whose herds were culled in response to the Mycoplasma eradication programme will not face an undue tax burden.

The proposed changes will be included in a future tax bill. As the proposed changes have not yet been through the Parliamentary process, they are subject to change.

The information in this fact sheet is provided as an early indication to allow farmers and their agents to prepare.

Summary of the proposed change

- Farmers that have culled their breeding livestock (including growing replacements) because of Mycoplasma bovis, would be allowed to spread the additional income derived as a result of the cull of that stock over the following six years, provided those farmers have:
  - used, and continue to use, the national standard cost scheme or the self-assessed cost scheme for their breeding stock; and
  - substantially replaced that culled livestock within twelve months.

Application date

The proposed amendment would apply from the 2018 income year as culls began in late 2017.

Additional information

Example

The breeding livestock (including growing replacements) were culled in the 2020 income year.

Slaughterhouse proceeds for breeding livestock (including growing replacements) that were valued at cost	$400,000
Add compensation top up to market value	$500,000
Total disposal proceeds	$900,000
Add any additional compensation for replacement cost exceeding disposal proceeds	$100,000
	$1,000,000
Deduct opening tax book value of breeding livestock valued at cost	$340,000
Net extra income	$660,000

$660,000 is spread equally over the 2021 income year and the following five years, that is, $110,000 each year.

Income tax returns for 2019

Income tax returns for the 2019 income year are still expected to be filed by 31 March 2020. These returns may include compensation payments and slaughter receipts arising from culled livestock on which tax has either been paid or will soon be due.

The Commissioner has a broad range of options available to provide assistance with the tax payable on this additional income, and invites tax agents of affected farmers to send details to mbovis@ird.govt.nz.

Please provide the:

- farmer's name and IRD number;
- agent's contact details;
- confirmation that livestock meeting the above criteria were culled and compensation from the Ministry of Primary Industries was received; and
- the amount considered allowable to be spread over the next six years if legislation passes as proposed, that is, the market value received for culled breeding stock (slaughter proceeds plus compensation payments that bring the total received up to market value). Other income would not qualify for the spread and would be payable on the due date.

Income equalisation scheme class of case

For non-breeding livestock (that is, fattening stock) valued under the national standard cost scheme or self-assessed cost scheme, or for stock valued under the herd scheme, the normal tax rules would apply, and the proposed spreading rules would not apply. The income equalisation scheme should provide sufficient flexibility to manage any tax issues in such cases.

To assist farmers wishing to use the income equalisation scheme, a class of case has been approved for those who were instructed by Biosecurity New Zealand to cull livestock because of Mycoplasma bovis. This allows for late deposits up to 30 April 2020 and for early refunds.

Questions and Answers

What's the issue?

The Government and primary sector has decided to eradicate Mycoplasma bovis in New Zealand. This decision has meant some farmers' herds have needed to be culled, leading to a sizeable unexpected income tax liability for those farmers who have been valuing their breeding stock at cost, which can impede the ability of those farmers to restock their herds.

What's being proposed?

The additional income could be evenly spread over the six income years after the year of the cull:

- if the culled livestock were substantially replaced within twelve months; and
- to the extent the income was derived from the culling of breeding stock (including their growing replacements) that have been valued under either the national standard cost scheme or the self-assessed cost scheme.

Why allow a spread?

This is unexpected taxable income which farmers have received because of the cull. A core principle of the Biosecurity Act 1993 is that no person should be any better or worse off because of the Crown's use of its powers under that Act. A spread of the additional income will effectively negate that income as farmers with breeding livestock should, under the national standard cost or self-assessed cost schemes, have offsetting additional deductions over that period.

Who will be eligible for the spread?

Only farmers who have derived additional income as a result of the culling of their breeding stock that has been valued under either the national standard cost scheme or the self-assessed cost scheme, and who substantially replace that culled livestock within twelve months and continue to value that stock under the same valuation scheme.

When will it apply from?

As the first culls began in late 2017, the proposed amendment would apply retrospectively, from the 2017/18 income year.

Will it be compulsory?

No. Spreading the income will be optional. Those wishing to use the option should advise Inland Revenue.

Will there be a fiscal cost?

As the proposal just alters the timing of tax payments over the forecast period, it has minimal fiscal implications – an upfront fiscal cost of $1.5 million with a balancing fiscal gain over the following five years.

What should affected farmers do in the meantime before legislation is passed?

Affected farmers need to file their tax returns as normal but can seek an instalment arrangement with Inland Revenue. They, or their tax agents, should contact Inland Revenue to discuss the options. There will be a specific contact person and email box.

What about other farmers who have had their herds culled?

Other farmers will be less affected and can use the existing income equalisation scheme to offset any additional income that arises from their herds being culled. For example, a beef fattening operation that uses the national standard cost scheme will under normal circumstances be regularly turning over a significant portion of its stock annually which will generate annual income. Any additional income, therefore, should not be sufficient to warrant spreading, and the income equalisation scheme can be used instead.

The Commissioner has exercised her discretion to treat farmers who were instructed to cull livestock because of Mycoplasma bovis as a class of case for income equalisation scheme purposes. This gives assurance to farmers that late deposits up to 30 April 2020 and early refunds will be approved.